

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BIG SANDY RURAL)	
ELECTRIC COOPERATIVE CORPORATION FOR)	
AUTHORIZATION TO BORROW \$778,702.55)	CASE NO.
FROM COBANK AND EXECUTE NECESSARY)	2012-00456
NOTES AND TO REPAY COOPERATIVE)	
FINANCE CORPORATION NOTES IN THE SAME)	
AMOUNT)	

ORDER

On October 3, 2012 Big Sandy Rural Electric Cooperative Corporation ("Big Sandy") tendered for filing its application for authority to execute notes to CoBank ("CoBank") in the amount of \$778,702.55.¹ By letter dated October 12, 2012, the Commission notified Big Sandy that its refinancing application was rejected as deficient because it did not include the information necessary to satisfy certain filing requirements.

In response to the Commission's deficiency letter, on October 29, 2012, Big Sandy provided the information requested in the October 12, 2012 letter. The Commission accepted the information and considered the application filed as of October 29, 2012.

Big Sandy stated that it intends to use the proceeds from the CoBank loan to refinance and discharge part of its indebtedness to the National Rural Utilities Cooperative Finance Corporation ("CFC"). Due to the lower interest rate offered by

¹ App. at ¶ 7.

CoBank, Big Sandy projects a cash-flow savings of approximately \$311,471.27 over the life of the loan.²

As of September 5, 2012, Big Sandy's outstanding balance of CFC debt was \$3,410,967. The outstanding balance of CFC debt is made up of debt with interest rates varying from 2.85 percent to 6.46 percent. Big Sandy also has outstanding debt with CoBank of \$789,405 at an interest rate of 3.26 percent, Rural Utilities Service ("RUS") in the amount of \$9,076,124 at interest rates varying from 0.20 percent to 4.93 percent, and Federal Financing Bank of \$10,341,795 at interest rates varying from 0.095 percent to 4.472 percent.³

Of its total outstanding CFC debt, Big Sandy proposes to refinance \$778,702.55 with CoBank. The refinancing of the debt is permitted by CFC under Article II, Section 2.02 of the Mortgage.⁴ Big Sandy expects the actual payoff to be very close to \$778,702.55. In the event the actual payoff of the RUS loans is different, Big Sandy proposes to adjust any difference through its line of credit agreement with CoBank.⁵ Big Sandy asked for expedited treatment of its application, requesting that an order be issued by November 1, 2012 so that the transaction could close by November 30, 2012. The CFC notes proposed for refinancing have interest rates that will be reset on

² App. at ¶ 12.

³ App., Ex. 1.

⁴ App., Ex. 5, page 1.

⁵ App. at ¶ 8.

December 1, 2012 from the current rate of 6.40 percent to 4.80 percent⁶ and 5.45 percent.⁷

Big Sandy proposes to execute one note in conjunction with the borrowing from CoBank at a fixed interest rate of 3.07 percent. The new CoBank note will be amortized for a period of 10 years.⁸ The new CoBank note will also allow Big Sandy to pay off the notes to be refinanced earlier than their maturity date.⁹ The average remaining life of the CFC notes selected for refinancing is 16.92 years.¹⁰

Big Sandy provided a cash-flow analysis based on the \$778,702.55 loan amount that indicates it could save \$311,471.27 over the life of the loan.¹¹ The net present value of the cash-flow savings was provided as part of the analysis prepared by CoBank for Big Sandy. CoBank determined that the fixed interest rate would result in a positive net present value cash flow of \$230,194.65 discounted at the fixed interest rate of 3.07 percent.¹²

The Commission has reviewed the proposed refinancing and finds Big Sandy's proposal to be reasonable. Big Sandy has determined that it can refinance a portion of its CFC debt at a lower effective interest rate and experience cash-flow savings over the period of the loan. The Commission commends Big Sandy for taking advantage of the

⁶ App., Ex. 5, page 8.

⁷ App., Ex. 5, pages 11 and 14.

⁸ App., Ex. 5, page 1.

⁹ Id.

¹⁰ App., Ex. 5, page 3.

¹¹ App. at ¶ 12 and Ex. 5, page 2.

¹² Id.

financing alternatives available to it, thereby securing savings for itself and its member-consumers.

The final amounts of the CFC payoff and the new CoBank loan will not be known until the refinancing transaction is finalized. Therefore, Big Sandy should provide the Commission with the exact amount of the new CoBank loan within 10 days of finalizing the transaction. In addition, Big Sandy should provide an updated version of Exhibit 5, Pages 2 through 5 of its application reflecting the cash flow and the net present value analyses of the cash flow for the new CoBank loan.

The Commission, after consideration of the evidence of record and being sufficiently advised, finds that:

1. The loan from CoBank is for lawful objects within the corporate purposes of Big Sandy, is necessary and appropriate for and consistent with the proper performance by the utility of its service to the public, will not impair its ability to perform that service, is reasonable, necessary, and appropriate for such purposes, and should be approved.

2. Big Sandy should execute its note as security for the proposed loan in the manner described in its application.

3. Within 10 days of finalizing the refinancing transaction, Big Sandy should notify the Commission in writing of the exact amount of the new CoBank loan. Big Sandy should include with the notice an updated version of Exhibit 5, Pages 2 through 5, of its application reflecting the savings based on the actual amount of the new CoBank loan.

4. Within 10 days of the execution of the new CoBank loan documents, Big Sandy should file with the Commission three copies of the loan documents.

5. The proceeds from the proposed loan should be used only for the lawful purposes set out in Big Sandy's application.

6. The terms and conditions of the new CoBank loan should be consistent with the CoBank refinancing program as described in Big Sandy's application.

IT IS THEREFORE ORDERED that:

1. Big Sandy is authorized to borrow up to \$778,702.55, but no more than the total CFC payoff, from CoBank. The loan maturity dates and interest rates shall be in accordance with the CoBank refinancing program as described in Big Sandy's application.

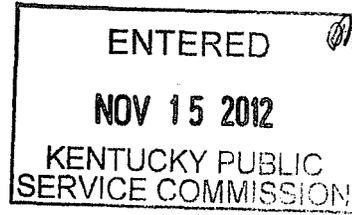
2. Big Sandy shall execute the CoBank loan documents as authorized herein.

3. Big Sandy shall comply with all matters set out in Findings 3 through 6 as if they were individually so ordered.

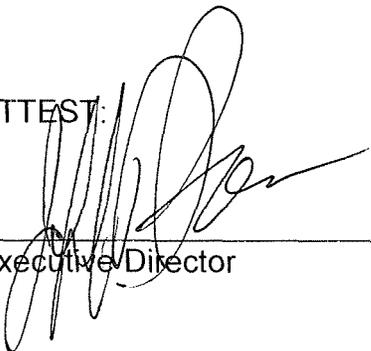
4. Any documents filed in the future pursuant to Findings 3 and 4 herein shall reference this case number and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

By the Commission



ATTEST:



Executive Director

Mr. David Estep
President & General Manager
Big Sandy R.E.C.C.
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Paintsville, KY 41240-1422